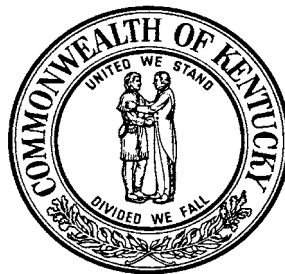


**LETTER FROM THE AUDITOR OF PUBLIC ACCOUNTS
DEPARTMENT OF MILITARY AFFAIRS**

**In Reference to the Statewide Single Audit
of the Commonwealth of Kentucky**

For the Year Ended June 30, 2002



**EDWARD B. HATCHETT, JR.
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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
MG D. Allen Youngman, Adjutant General
Department of Military Affairs

MANAGEMENT LETTER

This letter presents the results of our audit of the Department of Military Affairs, performed as part of our annual Statewide Single Audit of the Commonwealth of Kentucky.

In planning and performing our audit over compliance with requirements applicable to major federal programs, for the year ended June 30, 2002, we considered the Department of Military Affairs' internal control in order to determine our auditing procedures. We also performed an audit on the Schedule of Expenditures of Federal Awards. We noted certain matters involving internal control, compliance and its operation that we are including in this report. Some are considered to be reportable conditions under standards established by the American Institute of Certified Public Accountants.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Department of Military Affairs' ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants.

A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described herein is believed to be a material weakness.

Some findings are Other Matters that we have included in this letter to communicate with management in accordance with Government Auditing Standards.



To the People of Kentucky
Honorable Paul E. Patton, Governor
BG D. Allen Youngman, Adjutant General
Department of Military Affairs

Included in this letter are the following:

- ◆ Acronym List
- ◆ Schedule of Expenditures of Federal Awards
- ◆ Notes to the Schedule of Expenditures of Federal Awards
- ◆ Findings (Reportable, Material and Other Matters)
- ◆ Summary Schedule of Prior Audit Findings

We have issued our Statewide Single Audit of the Commonwealth of Kentucky that contains the Department of Military Affairs' findings, as well as those of other agencies of the Commonwealth. This report can be viewed on our website at www.kyauditor.net.

This letter is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

LIST OF ABBREVIATION/ACRONYMS

CFDA	Catalog of Federal Domestic Assistance
CFR	Code of Federal Regulations
Commonwealth	Commonwealth of Kentucky
DMA	Department of Military Affairs
FEMA	Federal Emergency Management Agency
FY	Fiscal Year
KRS	Kentucky Revised Statutes
KyEM	Kentucky Division of Emergency Management
MA	Department of Military Affairs
MARS	Management Administrative Reporting System
MIL	Department of Military Affairs
NEMIS	National Emergency Management Information System
OMB	Office of Management and Budget
PMS	Payment Management System
PRBL	Project Budget Line Inquiry
R&D	Research and Development
STARS	Statewide Accounting and Reporting System

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 2002

Federal Grantor		Expenditures		Provided to Subrecipient
CFDA #/	Program Title	Cash	Noncash	
<u>U.S. Department of Commerce</u>				
Direct Program:				
11.450	Integrated Flood Observing and Warning System (IFLOWS)	\$ 41,782		\$
<u>U.S. Department of Defense</u>				
Direct Programs:				
12.401	National Guard Military Operations and Maintenance (O&M) Projects	8,377,033		
12.404	National Guard Civilian Youth Opportunities	1,879,219		
<u>U.S. Department of Justice</u>				
Direct Program:				
16.007	State Domestic Preparedness Equipment Support Program	118,476		
<u>U.S. Department of Transportation</u>				
Direct Program:				
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	241,457		
<u>U.S. Department of Energy</u>				
Passed Through From Cabinet for Health Services:				
81.106	Transport of Transuranic Wastes to the Waste Isolation Pilot Plant: States and Tribal Concerns, Proposed Solutions	63,111		
<u>U.S. Federal Emergency Management Agency</u>				
Direct Programs:				
83.012	Hazardous Materials Assistance Program	4,317		
83.536	Flood Mitigation Assistance (Note 2)			
83.539	Crisis Counseling	54,821		

See accompanying Notes to the Schedule of Expenditures of Federal Awards

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 2002

Federal Grantor		Expenditures		Provided to Subrecipient
CFDA #/	Program Title	Cash	Noncash	
<u>U.S. Federal Emergency Management Agency</u>				
Direct Programs (Continued):				
83.543	Individual and Family Grants	4,542,103		
83.544	Public Assistance Grants	5,278,121		5,278,712
83.545	Disaster Housing Program	202,424		
83.548	Hazard Mitigation Grant	1,276,149		1,275,833
83.549	Chemical Stockpile Emergency Preparedness Program	4,369,296		3,646,574
83.552	Emergency Management Performance Grants	2,180,627		564,767
83.556	Fire Management Assistance Grant (Note 2)			
83.557	Pre-Disaster Mitigation	1,000		
TOTAL DEPARTMENT OF MILITARY AFFAIRS		\$ 28,629,936		\$ 10,765,886

See accompanying Notes to the Schedule of Expenditures of Federal Awards

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002

Note 1 - Purpose of the Schedule and Significant Accounting Policies

Basis of Presentation - OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires a Schedule of Expenditures of Federal Awards showing each federal financial assistance program as identified in the *Catalog of Federal Domestic Assistance*. The accompanying schedule includes all federal grant activity for the Department of Military Affairs and is presented primarily on the basis of cash disbursements as modified by the application of Kentucky Revised Statute (KRS) 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed.

KRS 45.229 provides that the Finance and Administration Cabinet may, “for a period of thirty (30) days after the close of any fiscal year, draw warrants against the available balances of appropriations made for that fiscal year, for the payment of expenditures incurred during that year or in fulfillment of contracts properly made during the year, but for no other purpose.” However, there is an exception to the application of KRS 45.229 in that regular payroll expenses incurred during the last pay period of the fiscal year are charged to the next year.

The basic financial statements of the Commonwealth are presented on the modified accrual basis of accounting for the governmental fund financial statements and the accrual basis of accounting for the government-wide, proprietary fund, and fiduciary fund financial statements. Therefore, the schedule may not be directly traceable to the basic financial statements in all cases.

Noncash assistance programs, where applicable, are not reported in the basic financial statements of the Commonwealth for FY 02.

Inter-agency Activity - Certain transactions relating to federal financial assistance may appear in the records of more than one (1) state agency. To avoid the overstatement of federal expenditures, the following policies were adopted for the presentation of the schedule:

- (a) Federal moneys may be received by a state agency and passed through to another state agency where the moneys are expended. Except for pass-throughs to state universities as discussed below, this inter-agency transfer activity is reported by the agency expending the moneys.

State agencies that pass federal funds to state universities report those amounts as expenditures.

- (b) Federal moneys received by a state agency and used to purchase goods or services from another state agency are reported in the schedule as an expenditure by the purchasing agency only.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002

Note 2 - Zero Expenditure Programs

These programs had no expenditures during FY 02. The zero expenditure programs included programs with no activity during the year, such as old programs not officially closed out or new programs issued late in the fiscal year. They also included programs with activity other than expenditures.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 02-MIL-1: The Department Of Military Affairs Should Ensure Subrecipient Monitoring Is Properly Performed**

State Agency: Department of Military Affairs

Federal Program: CFDA 83.544 – Public Assistance Grants

Federal Agency: U.S. Federal Emergency Management Agency

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: None

We tested the Department of Military Affairs' (DMA) system for monitoring subrecipient compliance with OMB Circular A-133 provisions and determined not all required entities have filed audit reports. We noted DMA does not have a system in place for tracking its subrecipients, who were required to have an audit, or following up on findings that related to the federal programs. By not receiving audit reports and tracking subrecipient compliance with audit requirements, DMA is not in compliance with OMB Circular A-133.

DMA cannot be assured that subrecipients are expending federal awards for their intended purpose and complying with the requirements of OMB Circular A-133 without having proper monitoring procedures in place.

OMB Circular A-133, Subpart B states: “[N]on-Federal entities that expend \$300,000 or more in a year in Federal awards shall have a single or program-specific audit conducted for that year in accordance with the provisions of this part.”

In addition, according to OMB Circular A-133, Subpart D(d) Pass-through entity responsibilities:

A pass-through entity shall perform the following for the Federal awards it makes: . . .

- (4) Ensure that subrecipients expending \$300,000 or more in Federal awards during the subrecipient's fiscal year have met audit requirements of this part for that fiscal year.
- (5) Issue a management decision on audit findings within six (6) months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.
- (6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 02-MIL-1: The Department Of Military Affairs Should Ensure
Subrecipient Monitoring Is Properly Performed (Continued)**

- (7) Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part.

DMA has the following responsibilities under OMB Circular A-133, Subpart D (d):

- 1) Advise subrecipients of requirements imposed on them by federal laws, regulations, and provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity;
- 2) Ensure required audits are performed and require subrecipients to take prompt corrective action on any audit findings; and,
- 3) Evaluate the impact of subrecipient activities on the pass-through entity.

Recommendation

A policies and procedures manual would make the subrecipient monitoring process more effective and easier to follow. It would also ensure compliance with OMB Circular A-133 subrecipient monitoring compliance requirements. In particular, OMB Circular A-133 requires the pass-through entity, DMA, to receive audit reports from subrecipients required to have an audit in accordance with OMB Circular A-133, issue “timely” management decisions on audit and monitoring findings, and requires subrecipients to take “timely” corrective action on deficiencies identified in audits and subrecipient monitoring. OMB Circular A-133 does not specify what “timely” means; however, a DMA subrecipient monitoring policies and procedures manual could define that to ensure compliance and consistency.

The written policies and procedures should contain, at a minimum, the following:

- 1) Communication of federal award requirements to the subrecipients.
- 2) The responsibilities for monitoring and tracking subrecipients in a timely manner, with a definition of what “timely” means. An example would be to have deadlines for the response on each correspondence sent to the subrecipient and/or independent auditor, and after a maximum number of sent correspondences (such as three (3)), the file would be forwarded to General Counsel for pursuit of noncompliance items.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 02-MIL-1: The Department Of Military Affairs Should Ensure Subrecipient Monitoring Is Properly Performed (Continued)

Recommendation (Continued)

- 3) Specific monitoring processes.
- 4) Methodology for resolving the findings of subrecipient noncompliance or weaknesses in internal control and a timeline for corrective action.
- 5) Requirements for processing subrecipient audits, including appropriate adjustment of pass-through entity's accounts, such as through the sanctions mentioned above.
- 6) Impose sanctions, disallow overhead costs, disallow expenditures, suspend federal awards, or terminate the federal award for subrecipients who fail to meet the audit requirements as set forth by the OMB Circular A-133.
- 7) Deny all requests for extensions made by the subrecipient who is failing to meet said requirement.
- 8) Establish a time limit on extensions for submitting an audit.

Management's Response and Corrective Action Plan

After a review of the findings we feel that there is only one area we are lacking in relative to tracking and responding to audits where a local government has received \$300,000 or more federal dollars in a state fiscal year, and are unsure where this responsibility lies.

OMB-133 defines, in sub-part D, the following responsibilities for the Pass-through entity (DMA, KyEM):

1. *"Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of the Federal agency."*

All Projects written by FEMA [Federal Emergency Management Agency] are identified by a unique number assigned to the project and are further identified by the FEMA disaster number (i.e. FEMA 1414-DR). This unique number tracks projects through completion. There is a very well defined Local/State agreement signed by the State and the Applicants Agent at the beginning of the project that

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 02-MIL-1: The Department Of Military Affairs Should Ensure Subrecipient Monitoring Is Properly Performed (Continued)

Management's Response and Corrective Action Plan (Continued)

outlines the recipients responsibilities for reporting and the audit requirements contained in OMB-133.

All large projects (\$52,000 and above) are paid only on the receipt of actual cost and the documentation is reviewed to ensure the funds requested are in fact accurate and are allowable costs toward the project. In addition, all large projects require a final inspection by FEMA and State staff to ensure the project is completed as indicated by the recipient and in accordance with federal guidelines.

2. *"Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contract or grant agreements as well as any supplemental requirements imposed by the pass-through entity."*

All recipients that receive Federal funds as a result of a Presidential Declaration are required to attend a briefing (4 hours) that fully explains the State/FEMA process and documentation requirements in order to receive the funds. Additionally, these requirements are set forth in the Local/State agreement.

3. *"Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved."*

All project information is reviewed by the FEMA and our Public Assistance Unit and is filed as a part of the applicants record. Every request for State/Federal funds is reviewed to ensure that the correct documentation is submitted to support the request.

4. *"Ensure that subrecipients expending \$300,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year."*

We are unsure if this is a program specific issue or does this include ALL federal funds received? If this is inclusive of all federal funds how do we determine the total amount of funds received and which agency is responsible for reviewing the audit?

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 02-MIL-1: The Department Of Military Affairs Should Ensure
Subrecipient Monitoring Is Properly Performed (Continued)**

Management's Response and Corrective Action Plan (Continued)

5. *"Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action."*

This specific requirement is not clearly defined as to who is responsible to monitor. Again, is this inclusive of all funds received or specific to the FEMA/State agreement for that disaster. If we are required to complete this process we will need to look at the workload of the division and determine what functions will have to be eliminated to ensure this requirement is completed. Our staff has been reduced by 6 positions this budget year and will likely not be filled in the near future.

6. *"Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records."*

All transactions from the beginning to end of a project are tracked internally as well as in the FEMA database called NEMIS. This allows the federal government to view all projects as well as our staff. Our procedures will not change until FEMA implements a new program to monitor projects.

7. *"Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part."*

This has never been an issue. We pay the subrecipient, for large projects, based on the actual receipts submitted to us for payment. This ensures we are provided all necessary documents.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 02-MIL-1: The Department Of Military Affairs Should Ensure
Subrecipient Monitoring Is Properly Performed (Continued)**

Auditor's Reply

DMA, under OMB Circular A-133, Subpart D, should ensure that all federal grant recipients expending \$300,000 or more in grant money have an OMB Circular A-133 audit performed for the fiscal year in which the awards were spent. This would be for entities expending \$300,000 or more a year in federal awards. The subrecipient has nine (9) months from the end of the fiscal year to submit an audit. After the audit is conducted, DMA needs to make certain they obtain a copy of the audit, review the audit, and see if any findings pertaining to the grant were discovered. If findings were issued in the audit report, DMA should issue a management decision on the findings of the audit report within six (6) months after the receipt of the subrecipient's audit report. After the decision has been rendered, DMA should follow up on the findings to ensure the subrecipient corrected the findings in a timely manner.

DMA should devise a monitoring system for tracking subrecipients who are required under OMB Circular A-133 to have an audit performed. This monitoring system should be implemented for all federal programs with audit requirements.

While it appears DMA understands its responsibility and believes they comply with the subrecipient requirements, we were not presented with evidence indicating subrecipient activities met compliance requirements. The focus of our comment is to suggest DMA create a system to track, monitor, and follow through with subrecipient monitoring requirements.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**Other Matters Relating to Internal Controls and/or Compliance****FINDING 02-MIL-2: The Department of Military Affairs Should Ensure All Required Financial Reports Are Filed In A Timely Manner And Supported By Adequate Documentation**

State Agency: Department of Military Affairs

Federal Program: CFDA 83.544 – Public Assistance Grants

Federal Agency: U.S. Federal Emergency Management Agency

Pass-Through Agency: Not Applicable

Compliance Area: Reporting

Amount of Questioned Costs: None

We tested the DMA's financial reports for compliance with reporting provisions and determined not all required financial reports have been filed in a timely manner as required in the grant agreement. We also determined not all reports were correctly prepared and supported by adequate documentation.

1. Financial Status Report 269A should be submitted for each of Kentucky's grants within 30 days of the end of the quarter. Second Quarter reports for grant 1163 and 1388 were late by 42 days. Third Quarter reports for grant 1163 and 1388 were late by 28 days.
2. The Second Quarter 269A report for grant 1163 was unable to be verified against agency records or with MARS.

The federal government has the option to withhold cash payments on a temporary basis, disallow expenses, suspend or terminate the current award (in whole or part), withhold future awards, or take other legally available remedies, if they determine a grantee or subgrantee materially fails to comply with requirements of an award. Also, the submission of late reports could cause confusion in the reporting preparation process and result in information being added from wrong quarters or left out completely.

Inaccurate reports can also result in the federal government providing unnecessary funding, or limiting an award when funds are needed.

Title 44 of the Code of Federal Regulations (CFR) section 13.41 (b) (4) states, "When reports are required on a quarterly or semiannual basis, they will be due 30 days after the reporting period."

Good internal controls dictate a method of verifying report amounts and reviewing for accuracy, completeness, and compliance features be in place and operating effectively. Reports prepared for the federal government should have accurate supporting documentation.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**Other Matters Relating to Internal Controls and/or Compliance****FINDING 02-MIL-2: The Department of Military Affairs Should Ensure All Required Financial Reports Are Filed In A Timely Manner And Supported By Adequate Documentation (Continued)**

Recommendation

We recommend:

1. DMA submit all reports required by the federal government in a timely manner, or request an extension (in writing) from the federal government.
2. DMA implement additional procedures to ensure all federal reports and supporting documentation for the reports are reviewed for accuracy, completeness, and compliance with federal regulations prior to submission to the federal government. Both the preparer and the reviewer should sign or initial the DMA's copy of the report.

Management's Response and Corrective Action Plan

1. Response: A change in responsibilities on the Financial Status Report 269A, was implemented July 1, 2001. The Division of Emergency Management was taking over this job duty. The Assistant Director retired who was in charge of these at the time, an extension of time to file was requested and granted from the Disaster Assistance Programs coordinator, Dee Roberts. The Fiscal Manager assisted in training an individual to do these reports and they were mailed upon completion. I have a copy of the 269A reports completed 2/28/02 and cover letter signed by Larry Burnette March 1, 2002

The third quarter reports was sent to Dee Roberts on May 1, 2002, which were in the allowed time required for quarterly reports to be submitted.

2. Response same as above.

A pre-audit section has been established to carry out these responsibilities.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**Other Matters Relating to Internal Controls and/or Compliance****FINDING 02-MIL-2: The Department of Military Affairs Should Ensure All Required Financial Reports Are Filed In A Timely Manner And Supported By Adequate Documentation (Continued)**

Auditor's Reply

After receipt of DMA's response, we inquired of DMA supporting documentation to clear the findings. As for the late submission of the Financial Status Report 269A, DMA called FEMA for an extension and the extension was granted over the phone. In order to make sure the request was valid, the agency then requested an extension in writing.

A control weakness for reporting still exists. We were still unable to verify the Financial Status Report 269A for the quarter ending September 30, 2001 for the grant FEMA-1163-DR-KY-PA. The amount of \$69,836.32 was shown on the report. This amount is a combination of \$48,912.63 and \$20,923.69. DMA provided us the supporting documentation for \$48,912.63, but did not provide the supporting documentation for the \$20,923.69, which we were unable to verify. In order to ensure accuracy of all amounts on the report, DMA should maintain supporting documentation for all valid transactions.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**Other Matters Relating to Internal Controls and/or Compliance****FINDING 02-MIL-3: The Department Of Military Affairs Should Ensure All Federal Drawdowns Have Taken Place Within The Proper Time Frame**

State Agency: Department of Military Affairs

Federal Program: CFDA 83.549 – Chemical Stockpile Emergency Preparedness Program

Federal Agency: U.S. Federal Emergency Management Agency

Pass-Through Agency: Not Applicable

Compliance Area: Period of Availability of Federal Funds

Amount of Questioned Costs: None

OMB Circular A-133 requires all obligations incurred under a federal award are to be liquidated no later than 90 days after the end of the funding period. During our review of grant expenditures and receipts, specifically grant CSE96/CS196, we noted that the drawdown for expenses incurred prior to the grant closeout date occurred 10 months after the ending grant date.

The federal government has the option to withhold cash payments, if they determine a grantee materially fails to comply with the requirements of the award (44 CFR 13.43).

Since the drawdown did not occur within the 90-day time frame, the grantor could consider these funds as unliquidated and could unobligate the balance.

44 CFR 13.23 states, “A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period . . .”

Recommendation

We recommend DMA implement additional procedures to ensure all federal drawdowns have taken place within the proper time frame.

Management’s Response and Corrective Action Plan

KyEM recognizes deficiencies in our process of monitoring smart-link balances. The KyEM Pre-audit Branch Staff will firmly monitor and reconcile our draws with MARS expenditures. This oversight has been identified and attention will be given to timely draws in the future.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**Other Matters Relating to Internal Controls and/or Compliance****FINDING 02-MIL-4: The Department Of Military Affairs Should Ensure Reports Are Submitted On A Timely Basis And All Federal Reports And Supporting Documentation Are Prepared Accurately**

State Agency: Department of Military Affairs

Federal Program: CFDA 83.549 – Chemical Stockpile Emergency Preparedness Program

Federal Agency: U.S. Federal Emergency Management Agency

Pass-Through Agency: Not Applicable

Compliance Area: Reporting

Amount of Questioned Costs: None

When reviewing the Financial Status Reports (FEMA Form 20-10) for the Chemical Stockpile Emergency Preparedness Program, we found the first and second quarter reports in FY 02 were not submitted on a timely basis. Both quarters ending September 30, 2001 and December 31, 2001 were submitted on February 11, 2002. This exceeded the 30-day requirement for the quarterly reports. The 4th quarter reports were signed, but not dated; therefore, the timeliness of the reports could not be verified.

In addition, we noted that the Final Financial Status Report (FEMA Form 20-10) and the Reconciliation of Grants and Cooperative Agreements (FEMA Form 20-19) for CSE96/CS196 submitted on February 11, 2002, did not reflect accurate information. The financial reports reflect a cash basis of accounting. The expenses that incurred on this grant did fall before the closing date, however, since the draw did not occur until 10 months later, the reports that were submitted were not accurate and, thus, did not comply with the required time frame.

The final report submitted to the federal government did not reflect accurate information. Since the 90-day time frame was not met and the information was incorrect, the grantor could consider these funds as unliquidated and unobligate the balance.

The federal government has the option to withhold cash payments on a temporary basis, disallow expenses, suspend, or terminate the current award (in whole or part), withhold future awards, or take other legally available remedies, if they determine a grantee or subgrantee materially fails to comply with the requirements of an award.

Submission of late reports could cause confusion in the report preparation process and result in information being added from the wrong quarter or completely left out.

44 CFR 13.40 (b) (1) states, “Annual reports shall be due 90 days after the grant year, quarterly or semi-annual reports shall be due 30 days after the reporting period. The final performance report will be due 90 days after the expiration or termination of the grant support.”

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**Other Matters Relating to Internal Controls and/or Compliance****FINDING 02-MIL-4: The Department Of Military Affairs Should Ensure Reports Are Submitted On A Timely Basis And All Federal Reports And Supporting Documentation Are Prepared Accurately (Continued)**

Recommendation

We recommend DMA submit reports required by the federal government on a timely basis or request an extension of time (in writing) from the federal government.

We also recommend DMA implement additional procedures to ensure all federal reports and supporting documentation for the reports are prepared accurately and have been adequately reviewed for accuracy, completeness, and compliance with federal regulations prior to submission to the federal government.

Management's Response and Corrective Action Plan

The KyEM Pre-audit Branch will monitor balances and timely draws will be coordinated and reconciled through Darlene Tufts. In the event that an adjustment is made outside of the date requirements, the KyEM Pre-audit section will submit corrected financial status reports that reflect the corrected balances.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**Other Matters Relating to Internal Controls and/or Compliance****FINDING 02-MIL-5: The Department Of Military Affairs Should Ensure The Management Administrative Reporting System Reflects Accurate Information**

State Agency: Department of Military Affairs

Federal Program: CFDA 83.549 – Chemical Stockpile Emergency Preparedness Program

Federal Agency: U.S. Federal Emergency Management Agency

Pass-Through Agency: Not Applicable

Compliance Area: Reporting

Amount of Questioned Costs: None

Upon review of the grants in Management Administrative Reporting System (MARS), we found grant information to be inaccurate. Management uses the PRBL table in ADVANTAGE to monitor grant balances. Since the PRBL table reflects real-time data, the Outlays on the Financial Status Reports for each quarter could not be verified, however, we feel that the Financial Status Reports are accurate. The errors we found were due to the Statewide Accounting and Reporting System (STARS) to MARS conversions. The grants that were active in STARS, the previous accounting system, were not correctly input into the current accounting system, MARS. The PRBL table shows incorrect balances in the expenses, third party contributions, and collected columns; thus, showing an available budget. The grants we found with errors were: CSE96, CS196, CSE97, CS197, CSE98, CS198, CSE99, and CS199. Since management uses this table to monitor grant balances, these tables need to be accurate. Inaccurate reports, poor management decisions because of inaccurate information, and overspending of program funds could result because MARS does not reflect accurate grant information.

Good accounting procedures require that the grant information in the accounting system be accurate. Good internal controls dictate that the agency should be aware of the grant balances and keep these tables running efficiently and effectively for accurate reporting.

Recommendation

We recommend that DMA improve its controls by implementing an additional procedure to ensure MARS reflects accurate information.

Management's Response and Corrective Action Plan

Upon further review, we recognize deficiencies in our process. Procedures have been adjusted and all accounts listed above have been reconciled. The correct documentation has been prepared and processed through MARS and our Project PRBL balances agree with the smart-link balances.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2002

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Reportable Conditions</u>					
<i>(1) Audit findings that have been fully corrected:</i>					
There were no findings for this section.					
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY 01	01-MIL1-46	The Department Of Military Affairs Should Ensure Subrecipients Meet OMB Circular A-133 Audit Requirements	83.544	0	The audit once again found that the DMA has not made improvements in its tracking system of audit reports. See 02-MIL-1.
FY 97	97-Military Affairs-50	The Department Of Military Affairs Should Strengthen Procedures For Monitoring Subrecipients	83.544	\$62,500	The questioned costs are resolved. However, the audit once again found that the DMA has not made improvements in its tracking system of audit reports. See 02-MIL-1.
FY 00				(34,747)	
FY 02				(27,753)	
Total Questioned Costs				<u>\$0</u>	

(3) Corrective action taken is significantly different from corrective action previously reported:

There were no findings for this section.

(4) Audit finding is no longer valid or does not warrant further action:

There were no findings for this section.

Material Weaknesses/Noncompliances

(1) Audit findings that have been fully corrected:

There were no findings for this section.

(2) Audit findings not corrected or partially corrected:

There were no findings for this section.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2002**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Material Weaknesses/Noncompliances (Continued)</u>					
<i>(3) Corrective action taken is significantly different from corrective action previously reported:</i>					
There were no findings for this section.					
<i>(4) Audit finding is no longer valid or does not warrant further action:</i>					
There were no findings for this section.					
<u>Other Matters</u>					
<i>(1) Audit findings that have been fully corrected:</i>					
There were no findings for this section.					
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY 99	99-MA-1	The Department Of Military Affairs Should Strengthen Procedures For The Reporting Process	83.544	0	Reports are still not submitted in a timely manner. The reports are unable to be verified against agency records or with MARS. See 02-MIL-2.
<i>(3) Corrective action taken is significantly different from corrective action previously reported:</i>					
There were no findings for this section.					
<i>(4) Audit finding is no longer valid or does not warrant further action:</i>					
There were no findings for this section.					

